REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

PRESERVATION LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, Missouri
March 3, 2005

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Preservation Life Insurance Company

hereinafter referred to as such, as "Preservation Life", or as the "Company". Its administrative office is located at 3401 West Truman Boulevard, Suite 100A, Jefferson City, Missouri 65109, telephone number 573-635-6400. This examination began on December 13, 2004, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This is the first financial examination of Preservation Life Insurance Company. This examination covers the period from when the Company was acquired in 2001 through December 31, 2003, and has been conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zone participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners reviewed the work of the Company's independent auditor, Jamie L. Seaver, CPA, LLC, of Jefferson City, Missouri, for its audit covering the period from January 1, 2003, through December 31, 2003. We relied on the work of the CPAs with respect to investment confirmations and control procedure review documentation regarding claims and reserve accounts.

Comments - Previous Examination

This is the first financial examination of the Company; accordingly, there are no prior reportable conditions or notes to comment upon.

HISTORY

General

Preservation Life Insurance Company (formerly known as Oakre Life Insurance Company) was incorporated on December 20, 1994, and was granted authority under the provisions of Missouri Law at Chapter 376 to commence the business of insurance on December 29, 1994. The Company is currently licensed only in the state of Missouri. The Company assumed its current name following the sale of Oakre Life Insurance Company (Oakre) to American Prearranged Services Inc., (APS), a Missouri corporation.

The purchase of Oakre by APS was consummated pursuant to a stock purchase agreement, which was approved by the Missouri Department of Insurance on September 27, 2001. The purchase was finalized and became effective on October 4, 2001, following the receipt of the underlying stock certificates by APS and the payment of the purchase price of $1,525,000 to Xerox Financial Services, Inc, the parent of Oakre. In addition to the purchase price, APS contributed an additional $448,724 as Special Surplus Fund to comply with the approval order of the MDI and an additional $30,000 was spent on organizational costs, which was then reported as part of Gross Paid in and Contributed Surplus.

The Company operated under its old name (Oakre) through March 20, 2002, when the new name, Preservation Life Insurance Company, was approved by the Missouri Secretary of State via a Certificate of Amendment to the Company's Articles of Incorporation.

Capital Stock

The Company is authorized to issue 600,000 shares of $1 par value common stock. As of December 31, 2003, all of the 600,000 shares were issued and outstanding, resulting in $600,000 in the Company's common capital stock account. The shares of common capital stock are

wholly owned by APS, consisting of 143,350 issued to APS directly and 456,560 held in a trust created by APS at First Trust of MidAmerica, Inc.

The excess amount paid in acquisition of the Company or $955,000, [$1,525,000 + $30,000 less $600,000] is included in the Gross Paid in and Contributed Surplus account. However, it should be noted that the Company subsequently repaid the $30,000 to APS out of Gross Paid in and Contributed Surplus. [See the Dividend section for more details].

Dividends

No dividends were formally declared during the period under examination. However, on January 2, 2002, the Company repaid APS, the sole shareholder, $30,000 incurred as organizational cost, which was previously recorded as part of the Gross Paid in and Contributed Surplus. This repayment represents a return of capital or constructive dividend. The amount of the dividend was in excess of the amount allowed under Missouri Insurance Regulation 200-11.150 (Dividends). Any dividend amount above the legal threshold requires the prior approval of the MDI. However, the Company did not seek this prior approval. Also, since the Company did not have any sufficient operating profit at the time of this payment, the Company was in violation of Section 375.380, RSMo (Illegal Dividends). The Company is directed to abide by these statutes and operate within the confines of Missouri Insurance Laws and Regulations in the future.

Management

The Board of Directors elected and serving as of December 31, 2003, were as follows:

Name	Address	Occupation and Business Affiliation
John W. McCulloch	Jefferson City, Missouri	President, American Prearranged Services, Inc.
John H. Lake	Jefferson City, Missouri	Attorney, Lake Law Firm, LLC
Donna J. McCulloch	Jefferson City, Missouri	Assistant Vice President, Missouri Hospital Association
Harold S. McCulloch	Aurora, Missouri	Manager, Associated Memorials, Inc.
Lloyd R. Downard	Jefferson City, Missouri	President, Administrative Management Corp.
Stephen L. Pierce	St. Joseph, Missouri	Vice President, Associated Memorials, Inc.
Kimberly M. Atnip	Linn, Missouri	Legal Assistant, Rost & Lake Law Offices
Malinda J. Christiansen	Lohman, Missouri	Comptroller, Associated Memorials, Inc.
Kimberley P. Pace	Jefferson City, Missouri	Office Manager, American Prearranged Services, Inc.

The Company's Bylaws authorize an Executive Committee and any other committees that may be needed. The established committees and the members elected and serving as of December 31, 2003, were as follows:

Executive Committee	Investment Committee
John McCulloch, Chairman	John Lake, Chairman
John Lake	John McCulloch
Lloyd Downard	Lloyd Downard

The officers elected and serving as of December 31, 2003, were as follows:

John McCulloch	President
John Lake	Vice President
Malinda Christiansen	Treasurer
John Lake	Secretary

Conflict of Interest

The Company requires its directors and officers to annually complete a conflict of interest questionnaire. Completed questionnaires were reviewed for all directors and officers for the examination period. No material conflicts were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Article 1 was amended effective March 20, 2002, to change the name of the Company to its present name. Article II was amended effective March 20, 2002, to change the location of the Company's statutory office and also to change the registered agent and registered office of the Company. These amendments were properly approved by the office of Missouri Secretary of State.

The Company is wholly owned by American Prearranged Services, Inc. (APS), represented by ownership of the entire 600,000 shares of $1 par value common stock. However, 76% of the shares are under trust with First Trust of Mid-America, Inc., (First Trust) pursuant to a trust agreement. During annual shareholder meetings of the Company, a proxy statement, allowing for the shares of the Company to be voted on behalf of First Trust, is entered into the records. We noted that the language in the proxy statement incorrectly identities First Trust as the owner of the shares. This is factually inaccurate, as the shares are all owned by APS. To the extent that a proxy statement is required under the prevailing circumstance, the wording should properly reflect that the underlying shares are **only** under custody with First Trust, while the ownership remains with APS. The Company is directed to implement this recommendation immediately.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

Preservation Life Insurance Company was acquired in 2001 by American Prearranged Services, Inc. pursuant to a stock purchase agreement. [See additional details in the "General" subsection above].

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Preservation Life Insurance Company is a member of an Insurance Holding Company System as defined by 382.010 RSMo (Definitions). The Company is wholly owned by American Prearranged Services, Inc. (APS), a Missouri corporation specializing in the sale of prearranged funeral contracts under Missouri Law at Section 436 RSMo (Special purpose contracts).

John Lake and John McCulloch, as individuals, each own 50% of the outstanding common stock of APS, and in combination, constitute the ultimate controlling entity of Preservation Life. Funds collected under contracts by APS are placed in trust with American Prearranged Services Trust (APS Trust), a wholly owned subsidiary of APS and an affiliate of the Company. Preservation Life is the insurer for the blocks of policies resulting from the funds on deposit by APS with APS Trust.

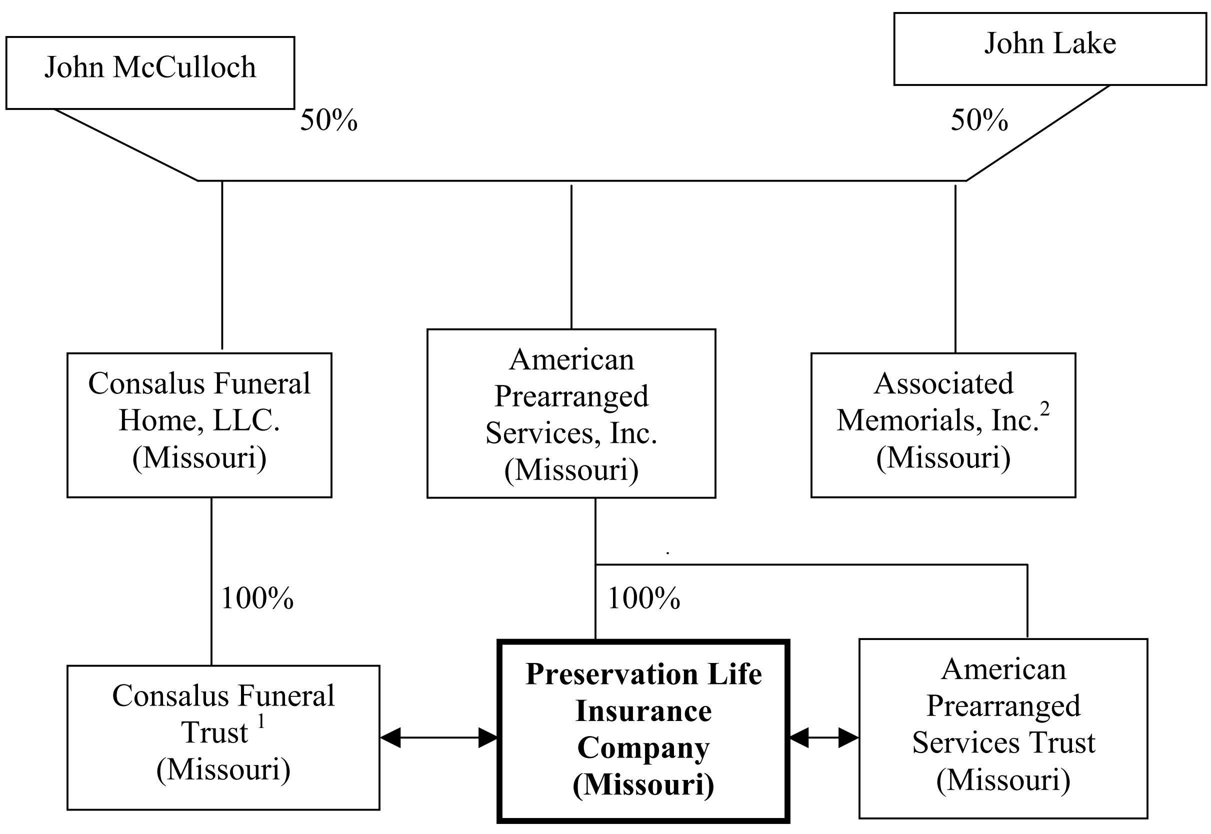
The Company is also affiliated with Consalus Funeral Trust, a trust created by Consalus Funeral Home, LLC, an affiliate funeral home. Pursuant to a Sale of Insurance Agreement,

Preservation Life is also the insurer of the blocks of policies resulting from the funds deposited by Consalus Funeral Home, LLC with Consalus Funeral Trust. [See the Territory and Plan of Operation section of this report for more details].

Insurance Holding Company Registration Statements have been filed by Preservation Life with the state of Missouri for the period under examination.

Organizational Chart

The following organizational chart depicts Preservation Life's ownership and holding company structure, as of December 31, 2003:



[1] Preservation Life issued a single group policy to Consalus Funeral Trust (CFT) in 2002. CFT is currently in runoff, with only eleven outstanding contracts.

2 Associated Memorials, Inc. is a funeral home holding company, which controls four funeral homes.

The ultimate controlling persons each own 25% of West Truman Partners, LLP, with the remaining 50% held by an unrelated individual. Preservation Life leases its home office space from West Truman Partners, LLP. The ultimate controlling persons also have ownership interests in other funeral homes and investment companies, with which Preservation Life transacted no business during the examination period.

Intercompany Transactions

The Company's significant intercompany agreements are outlined below.

1. **Type:** Lease of Office Space Agreement

   Parties: Preservation Life and West Truman Partners, LLP (WTP)

   Effective: November 1, 2002

   Terms: Preservation Life rents office space from West Truman Partners, LLP for its home office location in Jefferson, Missouri. Preservation Life pays monthly rent of $400 under the agreement, which is automatically renewed for additional one-year terms, unless terminated by either party. All utility fees, with the exception of the Company's telephone service, are included in the monthly rent.

2. **Type:** Equipment Lease Agreement

   Parties: Preservation Life and APS

   Effective: November 1, 2002

   Terms: APS leases certain office equipment, including computers, copy machine, postage machine, telephone system, file cabinets and office furniture to Preservation Life. Monthly rent is $200 under the agreement, which is automatically renewed for additional one-year terms, unless terminated by either party.

3. **Type:** Cost-Sharing Arrangement

   Parties: Preservation Life and APS

   Effective: June 25, 2002

   Terms: Preservation Life reimburses APS for certain services provided by APS, such as administrative assistant services, telephone service, photocopies,

postage and delivery and supplies. Reimbursement is based either on direct identifiable expenses or an allocation method, depending upon the good or service provided.

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Exception: The Company does not have a written agreement governing this cost-sharing arrangement. The Company is directed to draft an agreement, which outlines the terms of the arrangement and submit a Form D filing for the agreement to the MDI in accordance with RSMo 382.195 (Transactions within a holding company system).

4. **Type:** Attorney Agreement

Parties: Preservation Life and Lake Law Firm, LLC (Note, the Company is 50% owned by John Lake, principal at Lake Law Firm, LLC).

Effective: December 23, 2002

Terms: Lake Law Firm, LLC ("attorney"), agrees to represent Preservation Life in various legal matters including corporate compliance, legal proceedings, regulatory matters and general business, from time to time as requested by Preservation Life. Charges for services include an hourly fee of $175 for attorney's time and $55 for legal assistant's time. Preservation Life also agrees to reimburse the attorney for reasonable expenses incurred in providing legal services. The agreement is perpetual until termination.

5. **Type:** Consultant's Agreement

Parties: Preservation Life and Administrative Management Corporation (Note, the Consultant, Lloyd Downard, is also a member of the Board of Directors).

Effective: December 23, 2002

Terms: Administrative Management Corporation ("consultant") agrees to consult with the officers and employees of the Company concerning management and organization, financial policies, accounting, statistical and reserve reporting, administrative records systems, product development and staff training. The consultant is compensated on a monthly basis at $45 per hour for work performed, and the annual estimated hours worked is set at 400. The agreement ended on October 31, 2003, and was replaced with another agreement effective January 31, 2004. The new agreement has identical terms as the prior agreement, with the exception that the new agreement automatically renews for one-year periods, unless terminated.

6. **Type:** Sale of Insurance Agreement

Parties: Preservation Life and First Trust of Mid America, Inc. as Trustee of APS Trust

Effective: May 6, 2002

Terms: First Trust of Mid America, Inc. (First Trust) as trustee of APS Trust, agrees to purchase group whole life insurance policies from Preservation Life. The policies are on lives of individuals who have purchased prearranged funeral contracts from APS, for which the proceeds of the contracts have been placed in trust with APS Trust. The policies are to be single premium whole life. Premium schedules, detail of lives insured, and policy application forms are to be attached as schedules to the agreement. Preservation Life has the right to reject any and all applications. Death claims are to be submitted directly to Preservation Life, and shall be paid within 30 days of receipt of proof of death. The agreement allows no provision for policy loans.

7. **Type:** Sale of Insurance Agreement

Parties: Preservation Life and First Trust of Mid America, Inc. as Trustee of Consalus Funeral Trust

Effective: November 1, 2002

Terms: First Trust of Mid America, Inc. (First Trust), as trustee of Consalus Funeral Trust, agrees to purchase group whole life insurance policies from Preservation Life. The policies are on lives of individuals who have purchased prearranged funeral contracts from Consalus Funeral Home, LLC, for which the proceeds of the contracts have been placed in trust with Consalus Funeral Trust. The policies are to be single premium whole life. Premium schedules, detail of lives insured, and policy application forms are to be attached as schedules to the agreement. Preservation Life has the right to reject any and all applications. Death claims are to be submitted directly to Preservation Life, and shall be paid within 30 days of receipt of proof of death. The agreement allows no provision for policy loans.

Exception: This agreement was not filed with the Missouri Department of Insurance as required by law. The Company is directed to submit a Form D filing for the Sale of Insurance Agreement with respect to the Consalus Funeral Trust to the MDI in accordance with RSMo 382.195 (Transactions within a holding company system).

Overall, it should be noted that the Company failed to report any of the affiliated agreements in effect as of December 31, 2003, on the Insurance Holding Company System Annual Registration Statement (Forms B and C) as required by Section 382.110, RSMo (Filing of registration statement). The Company is directed to abide by the provisions of this law in future Forms B and C filings.

The Company's policies, which are currently written only to affiliates as indicated, include a participation rider. The rider allows, at Preservation Life's Board of Directors' discretion, to share divisible surplus of Preservation Life with its policyholders on an annual basis in the form of a cash dividend. The rider prohibits such dividends in the first three years the policy is in force, and since the first policy was written in 2002, none have qualified for dividends at this time. The rider represents a risk sharing agreement with affiliates, and as such, must be held to the "fair and reasonable" requirements of Missouri Law at Section 382.190 RSMo (Transactions with affiliates). The current language of the rider lacks the specific terms to determine if the agreement meets the requirements of this applicable law. The Company is directed to revise the language of the participation rider to include details regarding the dividend calculation and other pertinent information, and file the revised document to the MDI for approval.

The amounts (paid) to and received under the agreements summarized above during the period under examination were as follows:

	2003	2002	2001
Lease of Office Space Agreement – West Truman Partners, LLP	$ (6,000)	$ 0	$ 0
Equipment Lease Agreement – APS	(2,800)	0	0
Cost Sharing Arrangement – APS	(429)	(25)	0
Attorney Agreement – Lake Law Firm, LLC	(45)	0	0
Consultant's Agreement – Administrative Management Corporation	(3,454)	0	0
Sale of Insurance Agreement – First Trust as Trustee of APS Trust *(a)*	0	0	0
Sale of Insurance Agreement – First Trust as Trustee of Consalus Funeral Trust *(a)*	0	0	0
Net Amount (Paid)/Received	**($12,728)**	**$ (25)**	**$ 0**

(a) *No fees are incurred or earned as a result of these agreements, as the agreements outline the sale of insurance policies. Only premium and losses, which are disclosed below, are recognized in connection with the underlying policies.*

In addition to the items noted above, on November 1, 2002, the Company sold its initial group policy and only policy in 2002 under the aforementioned Consalus Funeral Trust Sale of Insurance Agreement with premium totaling $190,941. Claims paid under the Consalus Funeral Trust policy were $0 in 2002 and $9,929 in 2003.

In 2003, the Company sold four policies under the aforementioned APS-Trust Sale of Insurance Agreement, with premiums totaling $1,235,273. Claims paid in 2003 under the APS-Trust policies totaled $42,473.

FIDELITY BOND AND OTHER INSURANCE

The Company did not have fidelity bond coverage as of the examination date. However, during the course of the examination, the Company obtained an employee dishonesty policy with a liability limit of $100,000. Per NAIC guidelines, the Company is required to carry a minimum fidelity bond policy with a liability limit of $75,000. The Company's current level of coverage is adequate.

During the course of the examination, the Company also obtained coverage for Business Property, Business Liability, and General Liability insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees. The Company uses independent contractors, who provide some of the basic services required in its operations. These include

accounting, actuarial, legal and operations management. The underlying agreements and engagement letters with the independent contractors did not make provision for any pensions and benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The Company's required deposit for Missouri was $600,000. The funds on deposit as of December 31, 2003, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$750,000	$753,750	$750,000

Deposits with Other States

The Company does not have funds on deposit with any other state or jurisdiction.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Preservation Life is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life, Health and Accident Insurance). As of December 31, 2003, the Company was licensed to transact the business of insurance only in the state of Missouri.

The Company insures prearranged funeral trusts, which have been created to house and safeguard prearranged funeral plan premiums in accordance with the applicable Missouri laws.

During the period under examination, 100% of the Company's premium was derived from insuring prearranged funeral plan policies classified either as Single Premium Whole Life with level benefits or Single Premium Whole Life with (5%) increasing benefits.

The Company acquires business by entering into "Sale of Insurance Agreements" with prearranged funeral trusts to acquire blocks of business under the management and trusteeship of the trusts.

During the examination period, the Company entered into two such agreements with two separate prearranged funeral trusts. One of the trusts is created by the Company's parent, American Prearranged Services, Inc. (APS). APS is a Missouri corporation that primarily markets prearranged funeral plans and offers contractual financial relationship with various funeral homes. APS, through the establishment of a trust instrument with a trustee company, obtains blocks of business (prearranged funeral certificates) from various funeral homes. In accordance with the applicable Missouri law, APS deposits the proceeds received and subsequent premiums collected in a trust (American Prearranged Services Trust or APS-Trust) account. APS-Trust is managed and is under the trusteeship of First Trust of Mid-America, Inc., (First Trust), a Missouri licensed trust.

The Company also acquired business initially from Consalus Funeral Trust, a trust created by Consalus Funeral Home, LLC, an affiliate funeral home. Consalus Funeral Trust is also managed and under the trusteeship of First Trust and the underlying business is similar to that of APS-Trust. The agreement with Consalus Funeral Trust and the resulting transfer of

certain blocks of business was a one-time event. The agreement is still active, however, no new transfers are contemplated at this time.

Preservation Life's operating model is to receive transfers of identified blocks of business under trust with APS-Trust and the initial blocks of business from Consalus Funeral Trust. The major criteria is that the blocks acquired must consist of fully paid-up certificates, which are priced as either Single Premium Whole Life or Single Premium Whole Life with (5%) increasing benefits policies categorized by age and sex in $1,000 denominations. The trust making the transfer pays Preservation Life the sum total of the price for each certificate in the block transferred. The attributes of each certificate - name, age, sex, effective date, face amount is collated and forms the basis for the Company's In-Force listing. The Company then records the proceeds received as written premium.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, no such examination of the Company has been performed to date. A cursory review of market conduct related issues did not indicate any material problems.

REINSURANCE

The Company does not have a reinsurance program at this time. Premium activity during the period under examination was as follows:

	2003	2002	2001
Direct Business	$1,217,752	$190,941	$0
Reinsurance Assumed	0	0	0
Reinsurance Ceded	0	0	0
Net Premiums Written	**$1,217,752**	**$190,941**	**$0**

The MDI acknowledges the lack of reinsurance program due to the low volume of insurance operations at this time. However, the Company is hereby notified that a sound reinsurance program is essential to successful insurance operation. The need for a reinsurance program should be necessitated by the growth in insurance operations and premium volume. The Company is directed to institute procedures to monitor its premium volume and the associated risk and periodically assess the need for a reinsurance program.

ACCOUNTS AND RECORDS

General

The Company's financial statements were audited by the CPA firm, Jamie L. Seaver, CPA, LLC, of Jefferson City, Missouri, for all years in the examination period.

Policy and claim reserves were reviewed and certified by Christopher H. Hause, FSA, MAAA of Hause Actuarial Solutions, Inc., Overland Park, Kansas for 2002 and 2003. The Company did not retain the services of an actuary for 2001, as the Company did not begin active insurance operations until 2002.

Custodial Agreements

The Company does not have custody or safekeeping agreements with Charles Schwab and Company, Inc. and Edward Jones, Inc., its two investment managers and custodians. The Company is directed to execute custody or safekeeping agreements with its investment managers. The agreements should contain the necessary safeguards and controls in accordance with the NAIC's Financial Examiners Handbook Part 1, Section 4.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Preservation Life for the period ending December 31, 2003. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$3,277,919		$3,277,919
Cash and Short-term Investments	64,715		64,715
Investment Income Due and Accrued	28,356		28,356
Net Deferred Tax Asset	2,982		2,982
Electronic Data Processing Equipment	1,208	$1,208	0
Aggregate Write-Ins for Other than Invested Assets:	0		0
Organizational Costs	16,683	16,683	0
TOTAL ASSETS	**$3,391,863**	**$17,891**	**$3,373,972**

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Policies and Contracts	$1,309,475
Policy and Contract Claims – Life	14,830
Taxes, Licenses and Fees Due or Accrued	21,914
Current Federal and Foreign Income Taxes	8,578
Asset Valuation Reserve	6,529
TOTAL LIABILITIES	**$1,361,326**
Common Capital Stock	600,000
Gross Paid In and Contributed Surplus **(Note 1)**	925,000
Special Surplus Fund	448,724
Unassigned Funds (Surplus) **(Note 1)**	38,922
Capital and Surplus	**$2,012,646**
TOTAL LIABILITIES AND SURPLUS	**$3,373,972**

Summary of Operations

Premiums and Annuity Considerations	$1,217,752
Net Investment Income	84,826
TOTAL	**$1,302,578**
Death Benefits	63,526
Surrender Benefits and Withdrawals for Life Contracts	495
Increase in Aggregate Reserves for Life Policies	1,127,625
General Insurance Expenses	31,754
Insurance Taxes, Licenses and Fees	27,507
TOTAL	**$1,250,907**
NET GAIN FROM OPERATIONS	$51,671
Dividends to Policyholders	0
Federal Income Taxes Incurred	15,649
Net Realized Capital Gains and Losses	7,175
NET INCOME	**$43,197**

Capital and Surplus Account

Capital and Surplus, December 31, 2002	$1,968,136
Net Income	43,197
Change in Non-Admitted Assets	4,860
Change in Net Deferred Income Tax	2,982
Change in Asset Valuation Reserve	(6,529)
Net Change in Capital and Surplus	**$44,510**
CAPITAL AND SURPLUS, DECEMBER 31, 2003	**$2,012,646**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Gross Paid in and Contributed Surplus	**$925,000**
Unassigned Funds (surplus)	**$38,922**

The amount indicated above represents the restated value for each of the items listed above following the purchase of the Company in 2001 and cumulative results of operations through December 31, 2003. The Company had improperly reported these accounts without restating the amounts to reflect the effect of the acquisition in accordance with Statement of Statutory Accounting Principles (SSAP) #72, paragraph 15 (Surplus and Quasi-reorganizations). The amount of $925,000 for Gross Paid in and Contributed Surplus represents the amount paid by the Company in excess of the value of the shares acquired pursuant to the stock purchase agreement. The amount of $38,922 for Unassigned Funds represents the cumulative unappropriated funds, effective as of the acquisition date. The Company's capital and surplus was unaffected by this restatement. Going forward, the Company is directed to report these two items on the Annual Statement to reflect the effect of the acquisition and the cumulative effect of operations since the acquisition.

EXAMINATION CHANGES

None

GENERAL COMMENTS AND /OR RECOMMENDATIONS

Dividends (page 4)

The Company improperly repaid its sole shareholder $30,000 of organization cost incurred during the acquisition of the Company, which had been reported as part of the Gross Paid in and Contributed Surplus account. This payment represents a dividend and was paid without due consideration to Missouri Insurance Regulation 200-11.150 (Dividends) and Section 375.380, RSMo (Illegal Dividends). The Company is directed to abide by these statutes and operate within the confines of Missouri Insurance Laws and Regulations in the future.

Corporate Records (page 6)

A proxy statement, allowing for the portion of the Company's outstanding shares held under trust to be voted during annual shareholder meetings incorrectly identifies the trustee as the owner of the shares. This is factually inaccurate, as a single shareholder owns all the outstanding shares of the Company. To the extent that a proxy statement is required under the prevailing circumstance, the wording should properly reflect that the underlying shares are **only** under custody with the trustee, while the ownership rights are those of the sole shareholder. The Company is directed to implement this recommendation going forward.

Intercompany Transactions – APS Arrangement (pages 9 through 10)

The Company does not have a written agreement governing its cost-sharing arrangement with its parent, American Prearranged Services, Inc. (APS). The Company is directed to draft an agreement, which outlines the terms of the arrangement and submit a Form D filing for the agreement to the MDI in accordance with RSMo 382.195 (Transactions within a holding company system).

Intercompany Transactions – Consalus Funeral Trust (page 11)

The Sale of Insurance Agreement with respect to Consalus Funeral Trust was not filed with the Missouri Department of Insurance as required by law. The Company is directed to submit a Form D filing for the Sale of Insurance Agreement with respect to the Consalus Funeral Trust to the MDI in accordance with RSMo 382.195 (Transactions within a holding company system).

Intercompany Transactions – Forms B and C Filing (Page 11)

The Company did not disclose any of the related party agreements in effect as of the examination date on the Forms B and C as required by Missouri Law at Section 382.110, RSMo (Filing of registration statement). The Company is directed to abide by the provisions of this law in future Forms B and C filings.

Intercompany Transactions –Participation Rider (page 12)

The Company's insured policies with affiliate trusts include a participation rider that allows for surplus sharing. The rider represents a risk sharing agreement with affiliates, and as such, must be held to the "fair and reasonable" requirements of Missouri Law at Section 382.190 RSMo (Transactions with affiliates). The current language of the rider lacks the specific terms to determine if the agreement meets the requirements of the applicable law. The Company is directed to revise the language of the participation rider to include details regarding the dividend calculation and other pertinent information, and file the revised document to the MDI for approval.

Reinsurance (page 17)

The Company does not have a reinsurance program. The need for a reinsurance program should be necessitated by the growth in insurance operations and premium volume. The Company is directed to institute procedures to monitor its premium volume and the associated risk and periodically assess the need for a reinsurance program.

Custodial Agreements (page 18)

The Company does not have custody or safekeeping agreements with its two investment managers. The Company is directed to execute custody or safekeeping agreements with its investment managers. The agreements should contain the necessary safeguards and controls in accordance with the NAIC's Financial Examiners Handbook Part 1, Section 4.

Gross Paid in and Contributed Surplus/Unassigned Funds (Surplus) (page 21)

The amounts reported by the Company for these two items on the Annual Statement at December 31, 2003, were restated by this examination to comply with standard reporting following the acquisition of the Company in 2001. Although this restatement did not affect total surplus, the Company is directed to report these two items on the Annual Statement to reflect the effect of the acquisition and the cumulative effect of operations since the acquisition.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Preservation Life Insurance Company of America during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, examiner for the Missouri Department of Insurance, also participated in this examination. Andrew Balas, CFE, AES, Computer Audit Specialist for the Missouri Department of Insurance performed a review of the information system environment. Leon L. Langlitz, FSA, MAAA of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 15 day of April, 2005.

My commission expires: February 3, 2009

Notary Public

CASSANDRA GREWING
Notary Public - Notary Seal
State of Missouri - County of Callaway
My Commission Expires Feb. 3, 2009
Commission #05662742

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance

RECEIVED

MAY 17 2005

DIVISION
FINANCIAL REGULATION

Response of

PRESERVATION LIFE INSURANCE COMPANY

to

Report of the
Association Financial Examination of
Preservation Life Insurance Company
As of December 31, 2003

Response to General Comments and Recommendations

Preservation Life Insurance Company has the following responses to the General Comments and/or Recommendations made in the examination report of December 31, 2003:

Dividends

The monies in question were for reimbursement to APS for expenses it advanced for the Company in connection with the Form A filing and hearing in 2001. The Company considered this a payment of necessary expenses permitted under 20 CSR 200-11.150.1(B). The payment was not intended as a dividend and was not attributable or paid with respect to its stock. The Company acknowledges its failure to properly document the transaction and will vigilantly abide by the statutes and regulations as recommended.

Corporate Records

The Company's shareholder will implement the recommendation with respect to revising the statements in the proxy to reflect APS as the owner.

Intercompany Transactions -- APS Arrangement

The Company is preparing a cost-sharing agreement with American Prearranged Services, Inc., and will submit a Form D filing with respect to such agreement. The questioned transactions to date do not meet the threshold of a material transaction for purposes of 20 CSR 200-11.130.

Intercompany Transactions -- Consalus Trust.

The Company mistakenly believed the submission and approval of the form of Sale of Insurance Agreement entered into with First Trust of Mid-America, Inc. ("First Trust") as trustee for American Prearranged Services Trust would carryover to the Sale of Insurance Agreement entered into with First Trust on the Consalus Funeral Trust. The Company will, however, submit a new Form D filing as recommended for this transaction. It is not expected that there will be any further new business between the Company and Consalus Trust.

Intercompany Transactions -- Forms B and C Filing.

The Company will disclose on future Forms B and C filings the agreements between the Company and any affiliates or related parties as recommended.

Intercompany Transactions -- Participation Rider

The Participation Rider (Form No. PLI-Par-1 Approved 4/22/02) does not provide for statutory surplus sharing; the rider limits the sharing of annual divisible surplus, if any. The Company's Board of Directors will determine divisible surplus to be credited as a dividend and this dividend, if any, will be based on the profit of the actual insured business.

The Company does not contemplate that any dividend will be paid on the insured business to which this rider is attached within four or five years. Prior to the consideration of a dividend, the Board of Directors will request an actuarial profit study be made and a recommendation of dividend payment. The Company's year end financial statement will accrue a reserve for such dividend, with actuarial support prior to any actual dividend payment.

The Company does not believe it is necessary to incur additional corporate and actuarial expense to develop a surplus sharing formula for the Participation Rider Form No. PLI-Par-1 when profitability could only be on a perspective basis. The Company prefers to view profitability on a retrospective and perspective profit contribution basis, with full discretion for payment, if any, by its Board of Directors.

Reinsurance

The Company does and will continue to monitor its premium volume and the associated rises. The Company agrees as recommended to periodically assess the need for a reinsurance program, and to work toward a plan for such eventually.

Custodial Agreement

The Company is negotiating revisions of its agreements with its investment managers to provide for the safekeeping provisions of NAIC Financial Examiners Handbook Part I, Section 4 as recommended.

Gross Paid-In and Contributed Surplus/Unassigned Funds

The Company filed its 2004 Annual Statement reflecting the restatement of surplus pursuant to SSAP No. 72 with appropriate disclosure in the Notes to Financial Statement.

Sincerely,

John McCulloch, President
Preservation Life Insurance Company